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Newsflash: Income Tax - Shift in the base year from 1981 to 2001 with Revised Cost Inflation Index for computing Capital Gain

- Notification No. 44/2017

Background

- The current provision of the Income-tax Act, 1961 ('the IT Act') provides for indexation benefit for taxation of capital gains arising from transfer of long-term capital asset. As per section 48 of the IT Act, indexation is available from the first year in which the asset was held by the assessee or 1 April 1981, whichever is later.
- Under section 55 of the IT Act (prior to the amendment by the Finance Act, 2017) for computing capital gains in respect of an asset acquired before 1 April 1981, the assessee was allowed an option of either to take the fair market value of the asset as on 1 April 1981 or the actual cost of the asset as cost of acquisition. The assessee was also allowed to claim deduction for cost of improvement incurred after 1 April 1981, if any.
- With respect to asset acquired by assessee by modes specified under section 49 (1) of the IT Act (under gift or will, succession, inheritance etc.) section 55 provided that where the property is acquired in modes specified under section 49(1) and the previous owner acquired the property before the 1 April 1981, the cost of the assets so acquired shall be the actual cost of acquisition to previous owner or the fair market value of the asset on 1 April 1981, at the option of assessee.

Shift in base year for indexation

- The Finance Act, 2017 amended section 55 to revise the base year for computation of capital gains from 1981-82 to 2001-02 with effect from financial year 2017-18. The Explanatory Memorandum states that the object of the amendment is as follows:

"As the base year for computation of capital gains has become more than three decades old, assesseees are facing genuine difficulties in computing the capital gains in respect of a capital asset, especially immovable property acquired before 1 April 1981 due to non-availability of relevant information for computation of fair market value of such asset as on 1 April 1981."
- As a corollary to this change, for the purpose of calculating the cost of acquisition of capital asset acquired before 1 April, 2001, the assessee will have option to take higher of the actual cost of acquisition of the asset or fair market value of the asset as on 1st April, 2001.
- Similarly, the cost of the improvement incurred after 1 April 2001 shall only be allowed as deduction for computing capital gains and the cost of improvement incurred before 1 April 2001 will be ignored.
- Where capital asset was acquired under the mode prescribed in section 49 (1) and the previous owner acquired the property before 1 April 2001, now assessee will have the option to take higher of the cost of acquisition to previous owner or the fair market value of the asset on 1 April 2001.



Revised Cost Inflation Index

- The Central Government has issued Notification dated 5 June 2017 specifying the Cost Inflation Index (CII) with the revised base year at 2001-02.

TABLE		
Sl. No.	Financial Year	Cost Inflation Index
(1)	(2)	(3)
1	2001-02	100
2	2002-03	105
3	2003-04	109
4	2004-05	113
5	2005-06	117
6	2006-07	122
7	2007-08	129
8	2008-09	137
9	2009-10	148
10	2010-11	167
11	2011-12	184
12	2012-13	200
13	2013-14	220
14	2014-15	240
15	2015-16	254
16	2016-17	264
17	2017-18	272

The notification can be accessed on the below link:

http://incometaxindia.gov.in/communications/notification/notification44_2017.pdf



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This newsflash is general in nature. In this newsflash, we have summarized notification no. 44 / 2017, issued by CBDT for shifting base year for indexation benefit in relation to Capital Gains and also notifying the cost of index for FY 2017-18. It may be noted that nothing contained in this newsflash should be regarded as our opinion and facts of each case will need to be analyzed to ascertain applicability or otherwise of the said notification and appropriate professional advice should be sought for applicability of legal provisions based on specific facts. We are not responsible for any liability arising from any statements or errors contained in this newsflash.

10 June 2017